

# [An analysis of house of fraser](https://assignbuster.com/an-analysis-of-house-of-fraser/)

We have been asked to carry out an analysis of House of Fraser. This includes analysing the external environment, internal environment and then providing strategic recommendations on how the company could better position itself over the next few years.

## Procedure/Method

Information will be obtained from various sources including:

Textbooks

learning centre

Journals

magazine articles

Mintel and keynotes.

## Findings

## Strategic analysis of the external environment, including

A PEST analysis looks at the political, economic, socio and technological factors which may affect an organisation. Worthing and Britton (2006, P 475) Write that “ it seeks to predict the extent to which change is likely to occur, and its possible consequences towards and organisation” The following is a pest analysis for House of Fraser and detailed explanation of each factor.

## POLITICAL/LEGAL ISSUES

None

## ECONOMIC FACTORS

Downturn in the economy

Competition from Supermarkets such as Asda and Sainsbury

Lower disposable incomes

Drop in property prices

Sales tax increase

## SOCIAL CULTURAL ISSUES

People looking to cut down on expenditure

Changes in trends of types of clothing

Save money to purchase a new home

Leisure activities

## TECHNOLOGICAL FACTORS

Surge of online retailers

Counterfeit products being sold via websites such as EBay

Fast growth of technology

## Economical

The major effect for House of Fraser has come with the economic collapse of the financial markets which started in 2008. This mainly happened as Bauger purchased a large minority share in House of Fraser as well as many other retail stores, it was backed by Icelandic Bank landsbanki which collapsed and started pulling the plug on bauger. Bauger has therefore had difficulty obtaining new investors for its business. House of Fraser claim that business will still run as normal since it was a minority share; however, suppliers have recently become worried but have received reassurance from HOF.

Thompson (2009)

In June 2009, the former CE of Baugur, Gunnar Sigurdsson, rejoined the board at House of Fraser. Sigurdsson stepped down from House of fraser in late 2008 following the collapse of Baugur, the investment group he led, which held a stake in the department store. Baugur’s shares were subsequently transferred to Icelandic bank Landsbanki.

As families continue to tighten their budget and look to by cheaper items, the economic impact could affect House of Fraser for years to come. With competition being created by Supermarkets such as Asda and Sainsbury which work at the lower end of the market, House of Fraser may not be as successful until the economy becomes strong again. Furthermore, the British Retail consortium has warned that retailers will have a tough 2010 ahead of as the uncertainty continues within the economy. BBC Online (2010)

Another factor which may play a role is with the housing market. As families see their equity shrink with the drop in home prices and home prices outside many first time buyers budgets, families will now look to save as much as possible in order to purchase a home and with that, will reduce excessive expenditure in order to achieve this.

## Technology

A major impact to stores which sell designer has been websites such as EBay. Counterfeit items which may have made in China for example, have affected a wide range of markets, including:

Technology

Clothing

Consumer electronics

Counterfeit clothing is created and then sold on the internet at sometimes a tenth of the price, causing many retailers to lose valuable business. This can be seen with G-star jeans. The price of these Jeans in House of Fraser is £100; (House of Fraser, 2010) this same counterfeit item can be purchased on eBay for £12. (Ebay, 2010)

The UK designer clothing market grew by 2. 5% in 2007, to reach a total of £2 billion. Womenswear was the star performer at 3. 2% growth, driven especially by strong sales of top-end ranges where consumers look for differentiation, newness, quality and exclusivity. Menswear was solid, whilst children’s designerwear is declining.

The designer market is not insulated from the economic downturn: some companies admit weaker sales growth in 2008 H1, and aggressive markdowns in the June sales showed there was a lot of stock to be cleared. There is a ‘ material change in sentiment’ and while top-end is still strong, many feel this is not the time for ostentation. Creating the luxury experience in-store is crucial, and new trends see more stores offering more product areas and services to attract customers and keep them in longer.

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## Social and cultural issues

As many consumers have been hit by the downturn and with the loss of jobs, families may now be looking to cut down expenditure. Disposable incomes are at an all time low which will effect where many consumers shop. Even coming out of the recession, many families will now start to save their disposable income out of fear of another recession hitting and will want to be able to weather the storm better. They may therefore shop for lower brand name goods and look to save a larger portion of their income.

Many individuals are now looking to stay fit as there has also been a large push from the government regarding this. They will therefore spend a portion of their income in order to keep fit which will include gym membership, further reducing disposable incomes.

## 3. 2 Porter’s five forces model

This model looks at external elements affecting the company directly. It can be used by an organisation to see how these threats may affect negatively or whether they can be used in order to provide the organisation with a competitive edge. Worthington et al (2005, p214) Writes that “ it is a tool which can be used both to analyze current market position and in the formulation of strategic policies”

## Competitive rivalry

This is a list of the main rivals to House of Fraser

Debenhams plc

Marks and Spencer Group plc

Arcadia Group Limited

Burberry Group plc

Laura Ashley Holdings PLC

John Lewis Partnership plc

Buyers

## Potential entrants

Over the last few years, there has been a large growth in retailers which now sell clothing items all under one store. Most notable has been the merger of the US giant Wal-mart with Asda. Asda now sells its own brand of clothing called George which has helped it gain a large amount of the clothing market share. This has affected clothing retailers as supermarkets such as Asda and Sainsbury, have a one stop shop where families can now shop for food and clothing all under one roof, saving consumer’s time. Furthermore, Supermarkets’ share of the clothing market increased from around 10% in 2000 to 23% in 2008. Keynote (2009)

Another major player in the market is Primemark. As the economic downturn hit, primemark saw sales rise significantly. Even though they have had a negative image due to accusations of them using child labourers in China and not selling branded items, consumers still purchased items from their stores as they looked to save as much money as possible. And with the lower prices than average, Primemark has become stiff competition for many retailers.

## Substitutes

Substitutes of house of Fraser include a variety of websites which sells clothing, footwear and furniture directly to consumers. Mail order companies are another example of substitutes which include large companies such as Littlewoods.

## Buyer

When it comes to retail, most buyers do not have much if not any bargaining power. However, with the downturn in the economy, buyers have become more prices sensitive. Consumers who purchase certain brand name items may now lower there requirement in order to stay within budget, however, retailers have also been cutting down prices in order to keep these same customers coming in. There is however a threat that some consumers will now look to purchase items online from other retailers in order to purchase the same brand, but at a lower price.

## Supplier

House of Fraser has been moving towards creating more of its own brand name products, therefore, there does not seem to be much threat from suppliers and they do not seem to have much bargaining power.

## Competitor analysis

House of Fraser had a change of management during the 90’s due to major losses and the closing of many stores. This saw the company move towards the more upmarket brand and the taking in of more private labels. This in return has helped it establish itself as an exclusive brand. (Glasgow University Archive Services, 2003). However, Mintel (2009) also states that the timing to keep moving upmarket may be incorrect due to the fact that it may miss out consumers in the lower price bracket.

People want to know where they stand in volatile markets and a change in emphasis could unsettle loyal customers. The conversion of its Swindon premises to an outlet store further muddies the waters. Any more such conversions could potentially risk obscuring the House of Fraser retail brand and its identity. (Mintel, 2009)

The major competitors to House of Fraser have been John Lewis, Debenhams and Marks and Spencer. Please see appendix 5. 1 for a breakdown of the number of outlets for each competitor and their sales amount for 2007/08

Debenhams is one the larger retailers within this group but have also been suffering from high costs and also seems to be struggling. One major issue includes the huge debt which is estimated to be around £1billion. However, they have been expanding both the amount of stores and their product line. Recent flagship store openings include the Westfield Centre store in London which opened in October 2008.

The general market Debenhams concentrates is the middle class market, however, there main target has been towards women aged between 25-55. Mintel reports that data shows that Debenhams generally has a strong bias towards women. Furthermore, Debenhams also has its own product similar to what other retailers are producing.

The strongest competitor in the group is John Lewis which has been able to build a loyal customer base, show strong profits and seems to be in a position to expand in the future. One thing that has helped John Lewis sustain growth has been its own brand development and also the fact they sale lower price household goods and does not cherry pick high margin products. They also offer a free nationwide devilry service for orders over £30 compared to house of Frasers order over £50 policy. (Mintel, 2009)

Marks & Spencer’s still dominated the market and has a market size nearly twice the size of John Lewis. It is the largest retailer in the group. It has suffered recently from an image of selling old style items, however, under new management, has seen a massive change seeing it make a rapid recovery.

House of Fraser and John Lewis sell items to the higher end of the market, whilst Debenhams and Marks & Spencer’s sells closer to the mid of the market. Following is an example of coats sold from all four stores to give an example of their items and price difference.

Here is a coat from the Debenhams collection being sold on their website costing £33. 00. (Debenhams, 2010)

This is a Woman’s coat from John Lewis being sold at the John Lewis website for £179. 00. (John Lewis, 2010)

Here is a coat being sold at Marks and Spencer’s at the Marks and Spencer website for £35. 00 (Marks and Spencer, 2010)

A coat created by the brand Principles on the House of Fraser website being sold for £60. 00. (House of Fraser, 2010)

As you can see from the comparison above, there is a significant price difference between House of Fraser, John Lewis and Marks & Spencer, Debenhams. The items sold are very similar but perception, brand loyalty and image can make the difference on where consumers purchase. John Lewis seems to sell the highest priced products but with strong advertising and other factors such as a very strong web presence, it has helped them become the most competitive company in this segment.

It seems that generally, the more affluent buyers tend to shop at John Lewis; this may be down to an exclusivity factor regarding the image that they portray. Furthermore, even though they have the smallest amount of stores, they seem to be able to create the largest amount of revenues. This can be seen through their recent promotion. As Debenhams started a 25% sale other retailers followed, however, John Lewis did not reduce its prices but offered a price matching guarantee, which meant that it would match other retailers discounted prices. Ghani (2009)

## 3. 4 Market analysis

Clothing is the largest product sold by House of Fraser within their stores. Other items such as electronics are being sold on their website but are rather limited. Beauty products are sold in House of Fraser stores but are sold directly from the manufacturer as they lease space out of House of Fraser’s stores. The information provided will be predominantly based on the clothing sector.

The UK clothing and footwear market defined by Keynotes is worth an estimated 49. 8 Billion in 2008, majority of the share being dominated by women and children’s wear. It was worth 27. 8 billion last year. Over the last five years, woman’s and children’s wear have only increased by 17% but this is still higher then menswear. This also includes clothing for woman’s sportswear. (Keynote, 2008)

Market size for menswear was estimated to be worth £13. 5billion last year. There seems to have been an increase as men start to show more interest in branded clothing, but price deflation due to competition has had an effect on retailers. However, there are some changes as the economic downturn hit, for example, men have started to purchase more suits then casual clothing which is necessary for interviews as many men are looking for jobs.

(Keynotes, 2009)

The major difference has been the drop in the price of clothing and electrical goods. This is also visible in furniture prices as well. Drop in prices has been due to excess supply and competition in the market and it seems that this trend will continue in the future.

## Trends and Distribution channels

A trend that has taken place is that of men becoming more brand aware and sometimes only purchasing a piece of clothing if it is of a specific brand. This can also be related to the amount of men’s lifestyle magazines that come onto the market lately. There has also been clothing added into the market that slots in between sportswear and formal wear which is leisure wear.

Casual wear has also come into trend focused more towards the youth, combining sports clothes with regular dress and regular clothes for formal dress. An example of this can be seen as jeans have become more acceptable to wear on most occasions, as well as running shoes as casual wear.

The Younger generation of woman have a relaxed attitude towards how much body they show. This has benefitted lingerie companies and companies which sell swimwear. This would also point towards stronger sales during the summer as women generally tend to wear these clothing items in the summer season.

Other trends include women having more spending power due their presence in the workforce. They are also usually the most fashion conscious which is of a great benefit for House of Fraser. Also, change in body sizes will be taken into consideration when it comes to fashion. A teenager being bigger than previous generations is also a change that is currently being seen in the market.

## 3. 5 Analysis of the internal environment, including

## 3. 5. 1 Competitive strategy

There is immense competition between the main competitors in the market place. House of Fraser will react in a stronger manner when a competitor such as Debenhams puts on a sale. This can be seen from the 2008 Christmas sales when all the major retailers competed by advertising massive reductions further triggering off a price war. (Kowelle, 2009)

A method occasionally used by companies to monitor their micro environment is to use a tool called a SWOT analysis. A SWOT analysis can be useful in the development of a number of strategic options which attempt to tackle opportunities and threats, build on corporate strengths and avoid weaknesses. (Needle, D. 2000, Pg 197). Strengths and weaknesses are viewed within its internal environment, and opportunities and threats are viewed from its external environment

## STRENGTHS

Use of Technology in order to bring in customers who prefer using the internet to do their shopping

Clothing is a necessity and will always be needed by everyone therefore; the prospects for competitive stores will always be strong with a growing population.

Even though clothing prices have fallen, it also has a benefit as consumers tend to purchase more items which in return, keep sales up.

Financial situation

Branding is a big strength

Image is good

Retention of current customers

## WEAKNESSES

Consumers have seriously been cutting down on expenditure since the economic downturn.

Competition from lower priced stores

## Brand competition within the store itself

## OPPORTUNITIES

Current economic situation can be used in their favour by establishing lower cost stores.

Low interest rates may help with funding in order to pursue more expansion

Expand on current online market. HOF may take advantage and try and get ahead and increase their market share

## THREATS

Threat of counterfeit products being sold through sites such as EBay

Increasing competition and loss of market share to Low cost competitors

Increase of national insurance and higher taxes will affect the wealthy who shop at these stores.

## 3. 5. 2 Competitive positioning

## Value Propositions

We would be looking at the up market which is generally higher profile in terms of competitive pricing, even with 2010 looking grim for clothing retailers; House of Fraser believes that they will be able to perform strongly. One way House of Fraser has been doing this has been by expanding their own product line. Sales of House of Fraser products increased 33% (Reference from website) over the year which seems to suggest that House of Fraser’s own brand has become competitive within the clothing market. Another benefit has been the massive increase in handbag sales of 480%, for this reason, House of Fraser will continue to produce fresh and innovative products in order to stay competitive against rivals within the industry. They also believe that by having their own brands which other stores do not have, they will continue to gain a larger customer base as consumers look to purchase different items.

House of Fraser has increased the range of online products by 50% currently being sold on their website. House of Fraser currently has 600 brands in its online store and in order to stay competitive and grow, will continue to add more brands; this in return has helped them see online sales increase by 91% (House of Fraser, 2010)

Another factor which has helped House of Fraser has been the decrease in the value of the pound against the euro, this has helped attract a large amount of European shoppers. (BBC, 2009)

House of Fraser has also been looking to cutting excess and expenses and is also looking to pay off its debt. This will benefit House of Fraser in the long term as they will be less dependent on finance sources and will look better from an investment prospective.

One thing House of Fraser has been keeping as a priority is in store services. House of Fraser offers an array of services including makeover areas, manicures and even Botox treatments.

## Customer Intimacy

They want the customer to enjoy coming to a House of Fraser store for the experience, not just to shop. They comment that a lipstick sold in House of Fraser can also be purchased in Boots or Harrods, however they want to customers to purchase at House of Fraser for the overall experience and not just for the purchase alone. They believe that with this type of customer service, consumers will continue to shop at House of Fraser. Services have also been strong for House of Fraser with sales estimated at £250 million. (Howell, 2009)

House of Fraser has also been increasing its range of beauty products and brands. One thing has been not to sell celebrity perfumes as they believe they do not have longevity but concentrate mainly on strong brands such as Chanel and Estee lauder for example. They have also provided larger advertising posters to newly refurbished stores in order to provide in impact on consumers.

Woman’s wear daily (2009)

## Customer Loyalty

Another thing that House of Fraser currently provides is a rewards system. The more a consumer shops at House of Fraser stores, the more points they receive towards the purchase of gift items. The benefit is not only loyalty from consumers, but it also becomes a information gathering system. House of Fraser is able to collect data of its customers so that they can send out information regarding sales and promotions whilst also finding out about common shopping traits. This helps them figure out which products are doing better than others so that they can market those products or services to a greater amount.

Another factor has been the opening of three factory outlet stores in order to sell out of season items. These products are usually sold at a discount and do not have the services provided by the House of Fraser flagship stores. However, it has helped them sell to the lower end of the market. (Mintel, 2009)

It seems that House of Fraser has been trying to differentiate itself by offering more of its own brands. By selling these exclusively, it is trying to set itself apart from its competitors as many of the brands sold at House of Fraser are also sold in other stores, House of Fraser is also focusing on the intimacy of the customer experience and advertising itself as an exclusive place to shop. They seem to be less focused on cost leadership and more on customer experience and satisfaction as this is generally the requirement for the upper end of the market.

## 3. 5. 3 Segmentation and positioning

Compared to John Lewis and Debenhams, House of Fraser has a much lower portion of adults purchasing from there department stores which is a negative considering the fact that House of Fraser has twice as many department stores compared to John Lewis. However, it seems that the average consumer is becoming more brand aware hence the choice of shopping at House of Fraser. Mintel (2009) states that the percentage of shoppers regarding gender is split evenly, furthermore, The age group is also quite evenly distributed with the majority of shoppers being aged between 25-44 but by only a small margin.

The socio economic group purchasing the most from House of Fraser is in the A/B class, however, House of Fraser also has a fair share of lower class consumers purchasing from their stores. House of Fraser claims that its offering is mainly towards the upper half of the market; however, they also seem to have a wide range of prices on some of their products which can sometimes be seen as lower quality from the higher class purchasers. (Mintel, 2009)

People who are less brand conscious will most likely avoid stores such as House of Fraser and would most likely purchase from supermarkets such as Asda as their main priorities are price and quality.

Income also plays a factor as middle to upper class individuals would be more likely to shop from House of Fraser. It also seems that families on higher incomes may also give more importance to the type and brand of clothing there wear rather then cost.

House of Fraser’s advertising is generally aimed at the up market. Therefore, it is generally in more premium slots on the television and in magazines. Even when it is advertising sales, the advertisement is subtle, elegant and is generally more sophisticated. An example is in included in appendix 5. 2. Another aspect of House of Fraser is the bag that they give with store purchases. Even when consumers are purchasing from a specific brand, the clothing is always placed in a House of Fraser bag. The bag is durable and elegant and is generally held as prestigious in the sense that brand conscious consumers would rather hold a House of Fraser bag then a primemark bag. It is also a way of advertising for House of Fraser as the brand shown will always be House of Fraser, even though the item purchased may be made by a different brand. Moreover, this has created an image for House of Fraser as being an exclusive place to purchase clothing.

## Strategy recommendation

Customers are a crucial part of an organisation. In a competitive market such as retail, no customer means no business. An organisation should be concerned about the changing requirements of its customers and should keep in touch with its changing needs using an appropriate information gathering system. (Palmer, A. 2002. Page 7)

A bonus point for shopping at House of Fraser is there rewards system. We believe that they should significantly increase this by offering purchase bonuses for new customers and continually send out incentives to entice customers to regularly shop, this may be by offering better rewards or bonus points. They also are able to collect data from customer who may not be on the rewards scheme but may be tempted with the right offers.

We believe there is a market that is currently not being fully tapped by House of Fraser. This is the general middle class market. These people include adults and teenagers of all ages who may be on a budget but in general are attracted towards the quality of the House of Fraser brand. For this reason, House of Fraser should continue to expand on its strategy of opening more outlet stores. This may undermine the strategy of keeping items on the high end, but with its own value brands, selling out of season clothing and excess stock, they could potentially increase their profits significantly and compete with lower priced competition such as Asda, Sainsbury’s and Primemark. This in turn would mean trying to obtain business from the lower socio economic groups. One major reason we believe this would be beneficial is the fact that consumers are on budgets and are always looking for the best deal. They may be willing to spend a little more than Primemarks items if it has a designer brand or House of Frasers brand on it but as long as it is within their budget.

One other fact to note is that their own brand would be competitive as it branches off sales of high profile brands, as they have reached a certain level, they can sell it as they have developed their own name. Direct comparison would be Selfridges.

To make this more profitable, they could cut the in store services that they provide to their higher end customers which would significantly reduce costs and run. This is because lower to middle class consumers in general are looking for the best deal and tend to not be concerned about receiving extra service from a store. Furthermore, a separate website for discounted items could help with sales to technology savvy consumers at the lower end of the market. This could include advertising buy one get one half price type of deals or offering discounts when consumers shop over a certain amount.

House of Fraser has done well by having a large range of age groups shopping at their stores; however, we believe that they should continue to advertise to the younger generation, especially with their budget stores. This generation in general is more brand aware and prefer to by more upmarket clothing then the older generation, mainly over 35’s, however they are also on smaller budgets and would need enticing to bring into the store or online to shop. Having a rewards system which is specifically targeted at teenagers could be a great way to obtain their business. These rewards must however be more fun such as a gadget or a free item within the house of Fraser store which is preferred by them.

We feel that House of Fraser have advertised strongly and kept a strong presence in the market place, however, they still trail behind John Lewis. A strategy to increase advertising which is more unique then John Lewis would help it gain more customers who may ordinarily be more loyal towards John Lewis. This could include providing more Green products and advertising that they are working to reduce carbon emissions and help the environment. This would definitely bring in customers who enjoy purchasing brand products but may be reluctant as they want to make sure they are not harming the environment.

Another idea that could help would be to show that they are giving back to society. Having a charity which helps individuals in third world countries or cancer victims may be a way of further increasing sales and show that the company is caring is trying to do well for the world. This is also one way of showing social responsibility. An example charity would be the Susan G. Komen for the Cure global breast cancer movement. (Carter, 2010)

Finally, House of Fraser could increase its product range in order to directly compete with John Lewis in selling more household goods. This may in return help them become more profitable and steer customers away from John Lewis towards their own stores.

## Appendices

## 5. 1. No of outlets and sales amount 2007/08

## Retailer (parent/country of origin)

## Operation(s)

## No. of outlets

## Sales (£m, excl. VAT)

## Notes

## P

Marks & Spencer

Clothing, home goods & food

622

8, 309

P

John Lewis

Department stores

26

2, 315

P

Debenhams

Department stores

149

1, 839

(a)

P

House of Fraser

Department stores

61

661

P

## 5. 2 Appendix